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Globalization and interdependence: integration of the economies in transition into the world economy

Integration of the economies in transition into the world economy

Report of the Secretary-General

Summary

The present report provides an overview of the progress made in the integration of the economies in transition into the world economy during the period 2006-2007 and highlights major policy challenges faced by those countries. South-Eastern Europe and the Commonwealth of Independent States (CIS) have continued to see strong economic growth as well as further progress in integration through trade, foreign direct investment (FDI) and labour migration. The pattern of production and exports, however, remains narrow-based, limiting the region's potential benefits from full integration into the world economy. The major challenge for these countries, with variations in degree among them, is to broaden their growth base and reduce their vulnerability to external shocks.

This report summarizes the relevant policy issues and strategies for the transition economies with respect to encouraging investment, including FDI; strengthening trade linkages; improving the business environment so as to advance market reforms; and increasing investment in human capital. Special attention is paid to the policy challenges faced by the smaller member States of CIS, highlighting major impediments to growth and poverty reduction in these countries. The report also contains a number of recommendations to the international organizations on strengthening their policy advice and technical assistance to the countries with economies in transition.

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I. Introduction

1. In its resolution 61/210 of 20 December 2006, the General Assembly reaffirmed the need for the full integration of the countries with economies in transition into the world economy and the creation of conducive national and international environments in this regard. The Assembly also stressed the importance of enhancing the capacity of the economies in transition to utilize effectively the benefits of globalization, including ensuring favourable market access for their exports and attracting the foreign direct investment (FDI) required to support growth and development.

2. In the same resolution, the General Assembly requested the Secretary-General to prepare, in close consultation with the countries with economies in transition,[1] a report on the implementation of that resolution and to submit it to the Assembly for consideration at its sixty-third session. The Assembly further called upon the organizations of the United Nations system to continue to provide policy advice and technical assistance to the Governments of the countries with economies in transition in order to strengthen their social, legal and political frameworks so as to enable them to complete the necessary market-oriented reforms. An updated report of the activities of the United Nations system in pursuance of these goals, based on contributions from 17 funds, agencies and organizations of the United Nations system as well as other relevant international institutions, is available from the United Nations website at http://www.un.org/esa/policy.

3. The present report is an overview of the progress made in the integration of the countries with economies in transition into the world economy during the period 2006-2007. Several countries have advanced in transforming themselves into well-functioning market economies and have become new States members of the European Union (EU).[2] Other economies in transition in South-Eastern Europe and the Commonwealth of Independent States (CIS) still grapple with an unfinished agenda of market-oriented reforms and problems with respect to their integration into the world economy. In recent years, these economies have rebounded strongly from the deep contraction of economic activity at the beginning of the transition. Their strong growth performance has been helped by a buoyant world economy, high commodity prices and progress in reforms. The pattern of this growth, however, remains insufficiently diversified, limiting the potential benefits that could accrue to the region from full integration into the world economy. The major challenge for these countries, with variations in degree among them, is how to broaden their growth base and sustain high growth in the medium term. This report summarizes the relevant policy issues and strategies for the transition economies with respect to encouraging investment, including FDI; strengthening trade

[1] The Department of Economic and Social Affairs of the United Nations Secretariat organized an expert group meeting in cooperation with the Economic Commission for Europe on "Strengthening integration of the economies in transition into the world economy through economic diversification", which was held in Geneva from 2 to 4 April 2008. For more details on its programme and participants and the papers presented, see http://www.un.org/esa/policy/eitagenda.html.

[2] As a result of the EU enlargements in 2004 and 2007, 10 countries from Central and Eastern Europe and the Baltic States are no longer considered part of the economies in transition. Since that time, the countries with economies in transition have included the countries in South-Eastern Europe (Albania, Bosnia and Herzegovina, Croatia, Montenegro, Serbia and the former Yugoslav Republic of Macedonia) and the Commonwealth of Independent States (CIS).

linkages; improving the business environment so as to advance market reforms; and increasing investment in human capital. Special attention is paid to the policy challenges faced by the smaller States members of CIS and major impediments to growth and poverty reduction in these countries are outlined.

II. Trends and patterns in economic, trade and investment developments in 2006-2007

A. Macroeconomic trends[3]

4. In 2006, strong world economic growth, robust trade and low costs of international financing supported growth in these economies, while high commodity prices for oil and gas reinforced their integration into the world economy. The spillover effects of the energy boom in the oil-exporting countries led to increased trade and labour migration in the region, particularly in CIS. Despite a subsequent shift from a generally positive international environment in 2006 to less favourable economic conditions starting in mid-2007 in the form of a global slowdown, uncertainties related to the financial turmoil, and soaring energy and food prices, the economies in transition have continued to expand. The aggregate gross domestic product (GDP) of these economies grew at 8.4 per cent in 2007, extending a robust growth performance sustained since the year 2000 (figure I). Not only has this most recent growth momentum been the highest since the start of the transition process, but it has also been spread ubiquitously throughout the two subgroups of the economies in transition, namely, South-Eastern Europe and CIS (table 1). The credit crunch linked to problems in the financial markets of the United States of America has thus far mainly been felt in developed economies, but some economies in transition, such as Kazakhstan, have also been affected. Both slower world trade growth and tightening credit conditions likely will affect growth in the economies in transition in the coming years.

5. Strong output growth contributed to some improvement in the labour markets of the economies in transition. However, in spite of the revitalization of certain industries and noticeable growth in services, unemployment rates remain stubbornly high in Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia and Serbia. This problem is compounded further by the widespread structural nature of unemployment, as many job seekers have been without employment for long periods and there is a growing discrepancy between demand and supply for certain labour skills. This job market mismatch can constrain further technological upgrading of production capacities and limit a more dynamic economic integration process. In CIS, unemployment rates continue to decline owing largely to the expanding construction and service sectors in some countries such as the Russian Federation and Kazakhstan. Nonetheless, employment growth lags well behind output growth in these countries.

6. In 2006-2007, inflationary pressure emerged in the economies in transition owing to higher energy prices, expanding consumer credit and increases in real

[3] A detailed analysis of the current economic situation and prospects in the world economy, including the economies in transition, is presented in *World Economic Situation and Prospects 2008* (United Nations publication, Sales No. E.08.II.C.2).

wages in both South-Eastern Europe and CIS (table 1). This inflationary pressure is unlikely to abate in the short term, as the upward trend in food and energy prices, as well as the liberalization of utility prices, is likely to continue.

7. Upward pressure on the national currency of many countries in both South-Eastern Europe and CIS continued to build on the back of strong remittances, FDI and oil export revenues. This has reduced the competitiveness of domestic producers, further constraining the potential export diversification.

B. Integration through trade

8. The economies in transition have seen robust export growth driven by the ongoing liberalization of trade regimes[4] and strong external demand for, as well as higher prices of, the main export commodities of the region such as oil, gas, metals and cotton (table 2). On the import side, robust demand for investment goods and buoyant household expenditures continued to underpin solid growth, helped further by the effect of currency appreciation in many countries.

9. While export growth in South-Eastern Europe has been strong in recent years, it remains below its potential (figure II). At present, most of the exports from South-Eastern Europe belong to low- and medium-skilled and labour-intensive categories, which does not fully reflect the region's endowment of human capital. This has been partially due to the effects of the brain drain resulting from emigration and the "brain waste" arising from the fact that workers are being employed in jobs well below their actual skill level. Moreover, the deindustrialization that took place in the early years of the transition led to trade specialization in less sophisticated products where a competitive edge could be found, with foreign firms investing initially mainly in services and other businesses unable to compete in world markets. Consequently, for these countries to make full use of their export potential in a sustained way, their manufacturing sector needs to encompass increasingly higher value added segments of the product chain.

10. In CIS, both export volumes and values showed high and relatively stable growth rates owing largely to the continued robust expansion of the energy sectors in the resource-rich countries (table 2). This strong export performance is also reflected in the share of exports from these economies in world markets, which has been growing steadily for seven years in a row. However, despite a continued surge in oil exports in Azerbaijan and Kazakhstan, the region saw stagnating growth in the volume of exports in 2007, largely reflecting flattening oil output in the Russian Federation, the largest economy and largest supplier of oil and gas in the region.

11. While about 60 per cent of CIS exports go to developed economies, exports to developing countries are increasing rapidly owing to strong demand for primary commodities, especially from China.[5] After a significant drop at the beginning of the transition, intra-CIS trade recovered somewhat and expanded further in 2007, reflecting adjustments in the prices for oil and gas used in trade among CIS (table 2). A large share of exports consists of primary products, and this share has

[4] For an overview of the progress made in the integration of economies in transition into the world economy by 2006, see the previous report (A/61/269).

[5] For an assessment of trade links between CIS and China, see *World Economic Situation and Prospects 2008*, box II.1 entitled "Increased trade linkages between the Commonwealth of Independent States and China".

continued to increase since 1996. By contrast, the export share of both medium-technology products, including automotive, processing and engineering products, and that of low-technology products has declined (table 3), while exports of high-technology products remain at a low level. The nature of export concentration varies across CIS: some countries are heavily dependent on exports of fuel and fuel products, while others rely on exports of mining products, agricultural products or light manufactures such as textiles. Furthermore, it is important to note that the pattern of trade of CIS with EU differs significantly from trade among the CIS countries: exports to EU mainly consist of primary commodities, while exports of machinery, electrical goods and transport equipment dominate intra-CIS trade.

C. Integration through capital flows and labour migration

12. The economies in transition have shown diverse patterns of FDI inflows in recent years (see table 4). In South-Eastern Europe, FDI inflows increased in 2006-2007, as did the number of greenfield projects financed by FDI. In 2006, Serbia attracted a record net FDI inflow of $4.3 billion, as foreign companies made acquisitions in the telecommunication, finance and manufacturing sectors. In 2007, about $3.8 billion dollars of FDI went to Croatia, and Montenegro received about 1 billion euros in FDI, although half of that went into real estate. FDI flows in South-Eastern Europe helped to upgrade the food, steelmaking and transportation industries, and flows into the financial sector contributed to greater competition in banking. However, more significant inflows of greenfield FDI will be needed to foster technological modernization of manufacturing industries. This applies in particular to Albania, Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia, where the level of FDI remains relatively low and the strong reliance on hosting outward processing activities in metals, textiles and other labour-intensive industries continues. If the countries of South-Eastern Europe manage to create an environment more favourable to attracting greenfield FDI into export-oriented sectors and strengthen linkages between export sectors and domestic economic activity, they may be able to follow in the footsteps of the new EU member States by integrating into the production structures and distribution networks of EU and to dynamize the reindustrialization of their economies (see sect. III).

13. The continued surge of oil prices, coupled with the macroeconomic stability over the recent period, has driven greater FDI inflows into the resource-rich countries of CIS. In 2006, inward FDI increased significantly to a level twice as high as that in the previous year, reflecting strong inflows into the Russian Federation, Kazakhstan and Ukraine. FDI inflows into the Russian Federation reached a record $32 billion, followed by another surge to $52 billion in 2007. In contrast, FDI fell initially in Ukraine partly owing to the reduction in privatization-related FDI, but jumped in the following year. Despite new restrictions on FDI in some of the members of CIS, in particular in the oil and gas sectors, the energy sector continues to attract most FDI inflows. Recently, services attracted FDI as well, boosted by growing incomes in the region.

14. Migration from the South-Eastern European countries to EU has been substantial. About 10 per cent of the population had been displaced by regional conflicts in the early 1990s, and this was followed by economic migration in subsequent years. For example, about 15 per cent of Albanians currently live in foreign countries, and that share may be as high as 30 per cent for Bosnia and

Herzegovina. Estimates of the number citizens of South-Eastern Europe working in EU vary from 0.5 million to 1.0 million. The migrants are mostly engaged in unskilled occupations in their destination countries, working in agriculture, construction or services. The remittances sent by migrant workers are high as a share of GDP in Albania and Bosnia and Herzegovina and help to finance consumption in those countries, but they appear to be less important for Croatia and the former Yugoslav Republic of Macedonia (table 5).

15. In CIS, disparities in the level of economic development (see sect. IV), demographic trends and uncertainties about economic prospects, combined with shifts in labour demand, are key factors driving large migration flows. The Russian Federation is attracting the highest absolute number of international migrants (it ranks second worldwide after the United States of America) and inflows (mostly from CIS) continue to increase (table 6). Ukraine and Kazakhstan also attract substantial numbers of workers from within the region. For the countries of origin, worker remittances have increased significantly and have reached a level where they constitute a large share of GDP, as is the case, for example, for Tajikistan, Moldova, Kyrgyzstan and Armenia (table 5). For the low-income CIS countries, remittances constitute an important source of finance for consumption and poverty reduction.

16. In sum, the economies in transition have strengthened their integration into the world economy, although in most cases this has also reinforced their reliance on exports of a few primary commodities or low value added manufactures. Consequently, policy interventions are needed to promote a broader-based output mix, thereby enhancing the potential to gain from further integration into the world economy. However, in many countries in South-Eastern Europe and CIS, there is still a need to complete market reforms and strengthen institutional frameworks, as these will be a prerequisite for the successful implementation of economic diversification policies.

III. Policies to stimulate economic diversification

A. Macroeconomic policies

17. A stable macroeconomic environment is needed for effective economic diversification. After an extended period of persistently high inflation, large budget and trade deficits and mounting external debts incurred from the onset of the transition, more recently the countries in South-Eastern Europe and CIS have been able to create more stable and predictable macroeconomic conditions. However, the re-emergence of inflationary pressures in the second half of 2007 has put macroeconomic stability at risk again (see sect. II). In view of the uncertainties related to volatile world prices, prudent fiscal and monetary policies are needed in these countries in order to ensure an environment conducive to investment-driven growth.

18. Managing exchange rates at competitive levels and reining in inflation is a challenge for many of the economies in transition. In South-Eastern Europe, exchange rates either are fixed or closely trace the euro. In CIS countries, the surge in workers' remittances, FDI inflows and export revenues continues to put upward pressure on their real exchange rates. As the monetary authorities in CIS possess few effective instruments for sterilizing excess liquidity, this is creating difficulties

in keeping inflation under control while at the same time maintaining a competitive exchange rate. In this context, the establishment of fiscal stabilization funds based on oil revenues in Kazakhstan and the Russian Federation has proved useful in absorbing excess liquidity.

B. Economic restructuring and improving the business environment

19. The progress in the integration of the economies in transition into the world economy has been accompanied by deeper economic restructuring and improvement of the business climate in many of them. Key market reforms, including domestic price liberalization, privatization of small-sized public enterprises (often labelled small-scale privatization) and the liberalization of trade and foreign-exchange markets, were completed in most countries during the first phase of the transition. However, both the South-Eastern European and CIS countries still confront an unfinished agenda for implementing privatization of large State-owned enterprises (large-scale privatization) and broader financial sector reforms. While this varies across countries, there is also a need for further improvement of institutional frameworks, stimulus of market competition, regulation of the banking sector, and establishment of more transparent intellectual and other property rights.[6]

20. In South-Eastern Europe, market-oriented reforms have continued, largely with the support of EU. The signing of Stabilization and Association Agreements with EU by Bosnia and Herzegovina, Montenegro and Serbia, and the earlier expansion of the Central European Free Trade Agreement, have imposed certain obligations on the countries in the region, in particular in areas such as trade liberalization and competition policy. In 2006-2007, some progress was achieved in Bosnia and Herzegovina and the former Yugoslav Republic of Macedonia in public enterprise restructuring. Montenegro completed its process of trade liberalization and Serbia took on large-scale privatizations. However, most countries show deficits in the area of competition policy (table 7).

21. In CIS, price controls have been lifted further and progress has been made with small-scale privatization projects. Azerbaijan and Armenia completed their privatization programmes in 2006-2007. As a result, the number of countries with a private sector share of more than 75 per cent of GDP increased to 5 out of 12 (table 8). Although reforms have slowed in most countries in this region, a significant expansion of foreign banks in Ukraine and Moldova is expected to increase competition in this sector. Like the South-Eastern Europe countries, however, the CIS countries did not manage to improve their competition policies and infrastructure reforms (table 7).

22. The role of the State in fostering economic changes in the economies in transition is evolving from that of a direct participant to that of a regulator of economic activity. The major component of this new role entails building new institutional structures and improving the quality of institutions, including the judiciary, public administration, health care, and the pension system, as well as labour markets, the banking system, and competition policy, along with establishing

[6] For an overview of the progress of reforms in countries with economies in transition in 2006-2007, see European Bank for Reconstruction and Development, *Transition Report 2007: People in Transition* (London, November 2007).

effective bankruptcy procedures. These new functions require relevant policy interventions in order to facilitate the successful implementation of diversification strategies.

C. Role of the European Union in integrating economies in transition

23. From the early 1990s, active policies of EU towards its Eastern neighbours and a series of association agreements played a decisive role in effecting stronger integration of the countries in Central and Eastern Europe with the EU economy. These policies have led to the accession of 10 new EU members.[7] Since its most recent enlargement in January 2007, when Bulgaria and Romania joined the Union, EU has been focusing its enlargement policy on a number of countries in South-Eastern Europe. In parallel, EU continues to develop active policies towards the Union's new immediate neighbours, including a number of countries in CIS, within the framework of the European Neighbourhood Policy (ENP), in order to create an area of stability and good neighbourhood relations.

24. The relations of EU with the countries of South-Eastern Europe developed within the framework of the Stabilization and Association Process, launched in 2000. Since then, Croatia and the former Republic of Macedonia have been granted candidate country status for EU membership, and negotiations with Croatia are in progress. All other countries of the region are also viewed as potential candidates for EU membership. EU has repeatedly reiterated its commitment to their eventual accession provided they are ready to meet all necessary criteria and to undertake the obligations of membership.

25. All countries in the region have concluded Stabilization and Association Agreements with EU, the most recent ones having been signed by Montenegro in 2007 and Serbia and Bosnia and Herzegovina in 2008. The key component of these very comprehensive agreements is economic cooperation, which is expected to play a crucial role in external trade, investment flows and the business environment of the South-Eastern Europe countries. Although the implementation of these agreements in areas such as State aid to the production sectors and the adoption of European standards may create some difficulties, it is expected to be beneficial in the long run. EU is also pursuing regional development by actively supporting the revitalization of the region's road and railway infrastructure.

26. The European Union provides assistance to candidate and potential candidate countries through a unified financial instrument, the Instrument for Pre-accession Assistance (IPA), which replaced the earlier EU programmes for candidate countries in order that the assistance process might be streamlined and an overlapping among its different components might be avoided. This instrument provides assistance both to candidate countries and to potential candidates. In addition, EU is seeking an intensified cooperation with the European Investment Bank, the European Bank for Reconstruction and Development and other financial institutions with respect to investing in private sector development and infrastructure of the South-Eastern Europe countries. About 11.5 billion euros are allocated for pre-accession assistance in the EU-budget cycle of 2007-2013.

[7] For an overview, see A/61/269.

27. To promote further integration with the economies that are beyond its borders, including a number of countries in CIS,[8] EU continued to develop its European Neighbourhood Policy. The key component of the policy entails a significant degree of economic integration, including proposals of free trade in goods and services, free movement of capital and, potentially in the longer run, even free movement of people. In 2006-2007, the European Neighbourhood Policy was enhanced to provide more incentives to partner countries. In addition, following expiration of its Partnership and Cooperation Agreement, EU is currently negotiating a new comprehensive agreement of cooperation with the Russian Federation.

28. The European Union prepared individual action plans for each of the European Neighbourhood Policy partners, focusing on areas such as political dialogue, rule of law, economic reform, trade regimes, openness of service markets, and protection of intellectual property rights and standards. In May 2008, EU introduced plans to upgrade relations with some of the European Neighbourhood Policy countries, including Ukraine and Moldova. Both countries have been granted autonomous trade preferences by EU, and in February 2008, Ukraine started negotiations on a free trade area with EU. EU also launched a feasibility study on free trade agreements with Armenia and Georgia. In addition, EU also adopted a Regional Strategy Paper (RSP), covering Ukraine, Belarus, Moldova, Armenia, Azerbaijan, Georgia and the Russian Federation. Since some of the challenges faced by the region are of a cross-border nature, the Regional Strategy Paper strongly encourages regional cooperation among the partner countries. EU envisages spending 11.2 billion euros through the European Neighbourhood and Partnership Instrument (ENPI) in 2007-2013. A new fund, the Neighbourhood Investment Facility (NIF), was launched in May 2008 in order to mobilize additional funding, mainly for projects in the energy, environment and transport sectors of the European Neighbourhood Policy countries.

D. Multilateral and regional trade integration

29. Further integration of the economies in transition into the multilateral trading system and wider regional trade cooperation could promote economic diversification through the strengthening of trade and FDI linkages of these countries with different partners in higher-income markets. However, trade liberalization alone may not lead to the emergence of new activities and dynamic sectors in these economies. To make use of integration effects as a source for upgrading their production base, these economies need to implement complementary domestic policies to foster diversification.

30. Currently 8 out of 18 economies in transition are part of the multilateral trading system through their membership of the World Trade Organization. Ukraine joined the organization most recently (table 9). The remaining countries, with the exception of Turkmenistan, are in the process of accession. Bilateral negotiations on markets access have advanced for several countries, contributing to the harmonization of domestic legislation and commercial practices and advances in the reforms of the custom code and the tariff system in some countries, such as Montenegro, the Russian Federation and Kazakhstan. However, to advance further with the World Trade Organization accession process, countries will have to

[8] These include Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.

implement additional market-enhancing reforms and strengthen their cooperation with current World Trade Organization members.

31. Multilateral integration initiatives, such as the accessions to EU and the World Trade Organization, help to lock in institutional reforms in the economies in transition; and for the countries that are not aspiring to become EU members, the World Trade Organization supports a predictable environment for trade policies and investment-related activities. However, a lack of negotiation skills may slow down the accession process or fail to yield outcomes in line with country needs and preferences despite the flexibility of this process. United Nations organizations could assist, where needed, to enhance country expertise in trade negotiations.

32. Regional economic integration agreements, compatible with World Trade Organization rules, may also support trade expansion and economic diversification. A series of free trade agreements among South-Eastern Europe countries led to lower tariffs and the harmonization of trade rules. The Central European Free Trade Agreement expanded its membership in 2006 to include Bosnia and Herzegovina, Albania, Montenegro, Serbia and Moldova. The agreement has consolidated (by replacing) a large network of bilateral free trade agreements, creating a free-trade area with regulations compatible with EU and World Trade Organization rules. The Central European Free Trade Agreement covers areas beyond trade, including rules regarding non-discriminatory treatment of investments, State aid to the production sectors, procurement and product standards. The agreement also offers a dispute settlement mechanism. A gradual elimination of tariffs on industrial products has been agreed within the Central European Free Trade Agreement, but the issue of reducing tariffs on agricultural products remains politically sensitive. Although the tariffs are currently low, on average about 4 per cent for industrial products, trade is hampered by widespread non-tariff barriers, including persisting differences in the application of regulations regarding technical, sanitary and phytosanitary standards, problems related to certification, and numerous documents and licences required for customs administration. Boosting trade within the Central European Free Trade Agreement may mitigate dependence on trade with EU and increase the potential for diversification.

33. Regional integration among the CIS countries continued through a variety of free trade agreements, such as the CIS Free Trade Agreement, the Eurasian Economic Community (EurAsEC) and the Central Asian Cooperation Organization. Among these, the Eurasian Economic Community has the potential to become a driving force for regional integration, provided transport, communication and energy linkages are further developed to support exchange of goods and services. Uzbekistan joined the Community in 2006. Member States are working towards a deepening of economic cooperation through the creation of a common free-market zone including services, establishment of a customs union, formation of a common transport zone, creation of a common energy zone, establishment of a common financial market and further cooperation in the socio-humanitarian area. Many economies in CIS could benefit from further regional integration, as it would help diversify their product base through the facilitation of trade in goods with medium- and high-technology content. Regional integration is especially important for the small, landlocked and low-income countries in this region.[9]

[9] See United Nations Conference on Trade and Development, *Trade and Development Report 2007* (United Nations publication, Sales No. E.07.II.D.11).

34. Promoting trade in services creates a favourable background for the effective functioning of all other industries. This concerns in particular business support services, such as communication, advertising and distribution. In this regard, further development of the telecommunications infrastructure is needed in most countries in these regions (table 10). Many services in South-Eastern Europe and in some CIS countries are already liberalized and attract significant inflows of FDI, but there is scope for further expansion following a strengthening of market institutions and more general improvements in the investment climate.

35. In order to facilitate market access for export industries, Governments of the economies in transition need to support export promotion agencies and develop appropriate strategies to allow businesses to obtain better information about market opportunities. Examples of such efforts in the region are represented by the Serbia Investment and Export Promotion Agency (SIEPA) and Croatia's national export promotion strategy, called the Croatian Export Offensive, aiming to increase the number of companies in the export sector and to change the structure of exports by targeting specific sectors through support to private businesses.

E. Policies promoting foreign direct investment

36. FDI flows have proved to be an important channel for the integration of the economies in transition into the world economy. For the new EU member States, these have also played an important role in shifting their economic structures towards sectors with higher value added products. Although a variety of special incentives have been implemented in the latter countries to attract foreign investors, FDI seems to respond more strongly to improvements in the overall investment climate of the country. Hence, FDI promotion needs to be embedded in a broader policy framework. This should also include policies that help strengthen linkages between foreign firms and domestic production sectors in order to enhance the positive effects of FDI in economies in transition.[10]

37. The policy challenge for South-Eastern Europe is to attract new FDI now that most countries have completed the process of privatization of State enterprises. To this end, improving regulatory frameworks and legislation will be important. During 2006-2007, there was some progress in tax legislation, custom laws, regulation of land property and construction permits, strengthening of the judiciary and resolution of commercial disputes. Many regulations were eliminated or simplified in the region, in particular in Bosnia and Herzegovina and Croatia, with the burden of inspections, for example, significantly reduced. However, licensing and permitting processes need to be improved further. The process of registering a business, although significantly shortened, still requires far too many days for completion by EU standards.

38. Regional integration will be crucial in strengthening FDI flows and their benefits. FDI agglomeration effects appear when there is an adequate infrastructure and relatively free intraregional trade. The regional approach is also important for the economies in transition in South-Eastern Europe and the smaller and low-income members of CIS because of the small size of domestic markets and the need

[10] See *World Economic and Social Survey 2006: Diverging Growth and Development* (United Nations publication, Sales No. E.06.II.C.1).

to create local supply chains and backward and forward linkages. One of the components of the Stability Pact for South-eastern Europe, the Investment Compact, was designed to encourage the countries concerned to adopt such a regional approach to foreign investment; and those countries agreed to work, for example, in the direction of unifying registration and approval procedures for domestic and foreign firms, facilitating acquisition of real estate for FDI and minimizing requirements on reporting.

39. FDI inflows to CIS have been relatively weak until recently, mirroring the unfinished agenda of market-enhancing reforms in areas such as regulation and competition policy in its economies. Recent progress in privatization projects, for example, in Ukraine and in the natural resource sector in CIS, has attracted greater FDI inflows. FDI into the Russian Federation more than doubled in 2007. During 2006-2007, resource-rich economies such as the Russian Federation, Kazakhstan and Uzbekistan introduced measures limiting FDI in strategic industries. In the Russian Federation, these measures were followed by the introduction in May 2008 of a new law on foreign investment in strategic sectors. This defines the specific authorization procedures that apply to foreign investments in 42 sectors considered to be of strategic importance for the country, including oil and gas, nuclear energy, fisheries, defence, aviation and mass communication. From the point of view of establishing clear rules and procedures, the law may trigger a positive response from foreign investors, as it reduces uncertainty. At the same time, however, the transparency of some of the provisions in the new rules has been questioned, as there are concerns whether the stricter conditions for the energy sector will not deter foreign investment in this sector.

40. In 2006-2007, the business climate for foreign investors in non-oil sectors improved in several of the CIS countries. In the case of Ukraine, this improvement was the result of harmonizing the country's legislation with World Trade Organization norms prior to its accession, while in the Russian Federation, progress was linked to some legislation regarding intellectual property rights and access of foreigners to the banking system. Foreign investors expanded their activities in Kazakhstan's financial market as a response to a new law on securities markets; and in the case of Kyrgyzstan, there was some positive response by foreign investors to the introduction of a 10 per cent flat tax substituting a previous corporate tax of 20 per cent.

F. Investing in human capital, migration policies and mobilizing remittances for investment

41. To proceed further in the integration of their economies into the world economy and increase the benefits of this process, economies in transition need to increase spending on higher education, vocational training and continuous skills upgrading. In addition to subsidizing basic education policies that provide fiscal incentives such as education credits, tax incentives for the private sector to invest in human capital development are of particular importance for the economies in transition.

42. With migration growing, its labour-market, political and social implications are becoming an increasing challenge. For the recipient countries, such as the Russian Federation and Ukraine, migration is helping to lift some labour supply

constraints. In contrast, in the countries of origin, emigration of workers is starting to act as a constraint on economic diversification. Migration policies therefore need to be tailored towards the country's labour-markets conditions. The policy challenge for the countries with large migration outflows is to provide incentives to workers with relevant education and skills either to stay in the country or to return home. Both in South-Eastern Europe and CIS, serious attention should be paid to the fight against human trafficking and measures to better protect the rights of migrant workers.

43. Most of the remittances flowing into the economies of transition are used for private consumption. In order to ensure that a greater share of remittances is available for the financing of productive investment, recipients could be given incentives to deposit remittances into bank accounts. To achieve this, there is a need to reduce transaction costs of transfers, to further develop banking systems (for example, the banks of recipient countries could open affiliates in the source country) and to offer more non-banking services for transfers.

IV. Special challenges for the smaller member countries of the Commonwealth of Independent States

44. The smaller member countries of CIS, including the low-income countries Kyrgyzstan, Tajikistan and Uzbekistan, as well as the lower middle income countries Armenia, Azerbaijan, Georgia and Turkmenistan, suffered a deeper and more prolonged transitional recession than other economies in transition. While the quality of public services severely deteriorated during the downturn and social expenditures were drastically reduced, there has been a strong economic recovery in recent years and in a number of countries, this continued growth has made up for the income loss suffered during the initial period of transition. However, Georgia, Kyrgyzstan, Moldova and Tajikistan have not seen a return of their per capita GDP to pre-transition levels (figure III). Moreover, the strong economic performance in recent years has been based on output growth in just a few primary commodities, leaving income growth highly vulnerable to external shocks. In addition, delays in economic restructuring reforms have left these countries with a lack of infrastructure, little interest on the part of foreign investors, a lower level of human capital development and weaker institutional development. Economic insecurity and the high investment requirements in these lower-income countries make economic diversification a daunting challenge.

45. Regional cooperation is particularly important for promoting economic diversification of the smaller economies in CIS, as it will increase the effective size of their markets and can facilitate attracting more foreign investments outside the natural resource sector. In respect of gaining from such integration effects, the policy challenge in the region is to work on harmonizing standards and regulations as well as to improve trade and transit arrangements.

46. Except for Georgia, all of these economies are landlocked countries. Inadequacies in their transportation infrastructure, besides administrative obstacles to cross-border trade, therefore constitute a major obstacle to economic diversification and integration. However, low public investments in infrastructure and political conflicts over cross-border arrangements have discouraged intraregional trade and investments. These factors have led to high transportation

costs and high costs of holding substantial inventories caused by irregular supplies, significantly eroding competitiveness. Access to international markets is also hampered by other obstacles, including excessive documentation requirements, delays at border crossings, unofficial payments and unexpected closures of borders. To make cross-border economic traffic more efficient, these countries need to improve their transportation infrastructure, reform customs procedures and improve inter-agency coordination and cross-border cooperation.[11] Also, new investments in the energy sector need to be accelerated, as significant bottlenecks in electricity supply threaten economic growth in some countries. This will require a substantial increase in public investment for which limited domestic resources are available. Public-private partnerships in infrastructure provisioning may help supplement limited Government resources, in addition to external funding from multilateral development banks (namely, the World Bank, the European Bank for Reconstruction and Development and the Asian Development Bank).

47. Human capital is another important ingredient for diversifying growth in the smaller member States of CIS and, in more general terms, it becomes a prerequisite for accelerated development in these countries by reducing poverty. Access to schooling is, in general, not the major problem in these countries: school enrolment rates in primary and secondary education are 90 per cent or higher. However, there have been new negative trends of declining enrolment rates in primary education and decreasing literacy rates among 14- to 24-year-olds in the last five years in some countries such as Kyrgyzstan. Concerns are also related to the deteriorating quality of schooling and the weak capacity of the education system to provide training in skills required for the adaptation to new technologies and modern services, including tourism. Improving the quality of education and teaching curricula will help underpin economic policies stimulating a shift towards higher-productivity production activities.

48. Poverty rates have decreased in these economies on the back of their strong economic performance in recent years. The incidence of extreme poverty in CIS at large — the proportion of people living below $1 a day — has declined sharply, from 5.5 to about 0.6 per cent since the start of transition. Poverty reduction, however, remains unevenly spread across countries. Against national poverty lines, poverty in Azerbaijan declined from 45 to 16 per cent for the period 2003-2007; in Kyrgyzstan, it fell from 43 to 36 per cent between 2003 and 2005; and in Moldova, extreme poverty fell from 16 to 5 per cent between 2005 and 2006. Despite significant poverty reduction in recent years, the World Bank estimates that it is still uncertain whether the Millennium Development Goal target of halving extreme poverty by 2015 will be met in Georgia, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan. Poverty is particularly widespread in Tajikistan, the poorest country in the group, with 60 per cent of the population living on less than $2.15 per day. In most smaller member countries of CIS, agricultural output dropped drastically at the beginning of the transition and has recovered only very slowly since. As a result, much of the rural population has been trapped in poverty. The deterioration of agriculture is threatening food security in these countries and the surge in world food prices is driving up inflation and hurting the poor. Poverty reduction will

[11] ECE and the Economic and Social Commission for Asia and the Pacific (ESCAP) have identified a series of recommendations to strengthen transport linkages in the Euro-Asian regions. For more details, see ECE and ESCAP, "Joint study on developing Euro-Asian transport linkages", February 2008 (ECE/TRANS/184).

therefore depend critically on the promotion of agricultural and rural development. Promoting agriculture and agro-industries should involve providing incentives and improving infrastructure to strengthen production linkages over the entire supply chain. Poverty reduction will be best served by targeting support to small farmholders.

49. The share of women in unemployment is relatively high in the region, having reached 50 per cent in some countries such as Kyrgyzstan, while their wages tend to be much lower on average than those of men. Consequently, policies aiming at economic diversification should also promote employment opportunities for women and men alike and reduce wage discrimination.

50. Strong economic performance and prudent fiscal policies over several years helped the smaller member countries of CIS reduce their external debt burden (figure IV). In 2005-2007, this trend continued in those countries with the exception of Moldova, where GDP growth was not sufficient to stop the debt-to-GDP ratio from increasing. After a restructuring of this country's external debt to the Paris Club in May 2006, debt-service obligations declined but the level of external debt remains high. Continued official donor assistance and grants from the Millennium Challenge Cooperation should ease the need to borrow from abroad to finance investment projects in education, health and infrastructure. At the beginning of 2007, the authorities in Kyrgyzstan decided not to seek debt relief under the Heavily Indebted Poor Countries Initiative. Instead of being reduced, the external debt burden had increased further by the end of 2007 and the risk of debt distress is likely to remain high in the medium term. Nonetheless, debt-servicing obligations are currently manageable thanks to the rescheduling of the debt that Kyrgyzstan owes to the Paris Club and to the Kuwait Fund for Arab Economic Development. Demand for external borrowing is likely to stay high given the need of the low-income CIS countries to finance large public investment projects and to cover the costs of social protection mechanisms required to insulate the most vulnerable population groups from rising food prices. Adequate debt management mechanisms will have to be put in place to avert debt distress and possible macroeconomic instability as well as crowding out of necessary development spending in the long term.

51. Overall, policy challenges faced by the smaller members of CIS encompass a wide range of development goals and reform areas. However, these countries have limited resources of their own for dealing with these challenges simultaneously, and in this regard, will need the support of the international community.

V. Policy challenges and conclusions

52. **High prices for primary commodities and increased capital inflows have supported robust growth in output and trade in the economies in South-Eastern Europe and the Commonwealth of Independent States in recent years. However, the weakening of the global economy since mid-2007 due to the global financial turmoil and the food crisis has started to affect economic performance, especially in the more vulnerable smaller economies in transition. Economic vulnerability is closely linked to limited diversification of domestic production sectors and high dependence on a few export commodities of low value added content. With respect to ensuring their sustained economic growth,**

a major challenge for those countries is to promote economic diversification and upgrade their production to higher value added activities, thereby reducing their exposure to the volatility of world markets.

53. Progress regarding further integration of the economies in transition into the world economy through FDI has in many cases supported the upgrading of domestic production capacities. Despite the recent significant increase in FDI inflows to these countries, more investment is required into both industries and the infrastructure of the regions, so as to revitalize their industrial capacity and to diversify their output and export base. To attract more FDI, however, economies in transition need to continue focusing on systemic and market-enhancing reforms, institutions able to support markets, legal and regulatory systems designed to promote competition, intellectual and property rights, the rule of law, good governance and financial services.

54. Given the current concentration of their output and trade in the primary sector, the challenge faced by the CIS countries is to strengthen their industrial capacity for the processing of their natural resources. At the same time, agricultural development strategies should seek not only improvement in productivity, but also a strengthening of food-processing activities. This is especially relevant for the low-income and lower middle income CIS countries. This shift to higher value added activities should be feasible, as there is no constraint on technology and product upgrading in these processing stages. To this end, there is an active role for Governments to play in mobilizing domestic resources as well as in ensuring the efficient use of international financing, especially in the low-income economies.

55. The South-Eastern Europe countries face multiple challenges with respect to enhancing their gains from further integration into the world economy. Regional cooperation within the context of the Central European Free Trade Agreement and the Regional Cooperation Council needs to be strengthened and non-tariff barriers need to be eliminated in order to boost intraregional trade. In addition, market access for exports needs to be enhanced through active World Trade Organization-compatible export promotion activities and completion of World Trade Organization accession, while further export and output diversification will require attracting more FDI inflows and the upgrading of physical infrastructure. Further integration into European markets will be helped by the adoption of European and international standards and further harmonizing of those countries' legislation with that of EU.

56. Those economies in transition negotiating their World Trade Organization membership need continued assistance in their accession process. Organizations such as the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization might assist in evaluating the potential impact of World Trade Organization accession, and preparing negotiation strategies, offers on market access and information on agricultural support and all corresponding documentation, as well as training local administrations in the area of trade policy rules. For the current World Trade Organization members, further assistance could be provided on such subjects as how to go about referring a dispute to the World Trade Organization dispute resolution mechanism and the application of anti-dumping measures. It may prove to be

productive to facilitate an exchange of information between the countries that have recently joined the World Trade Organization and those that aspire to join.

57. To improve market access for South-Eastern Europe and CIS, international organizations need to support export and investment promotion activities in the region. Assistance could be provided in securing potential customers and business partners for exporters and in reaching the retail networks in potential markets. Organizations such as UNCTAD and the United Nations Development Programme (UNDP) could support countries in elaborating both export and investment promotion strategies. In the area of agricultural exports, it is important that high standards of food safety be adopted and maintained. The Food and Agriculture Organization of the United Nations (FAO) may provide valuable assistance in this context as well as with respect to the adoption of phytosanitary standards.

58. Development of infrastructure, including revitalization of regional road and rail networks, is crucial for the successful upgrading of industries and for increasing foreign trade of the economies in transition, particularly the landlocked countries of CIS. This will require adequate resource mobilization, including from the multilateral development banks. Special attention should be given to the further development of telecommunications, as the level of availability and quality of telecommunication services still lags well behind European standards in spite of improvements in the mobile phone networks. In addition, the energy shortages in the region should be addressed. Organizations such as UNCTAD, UNDP and ECE might provide significant assistance in the implementation of relevant projects and, in addition, could facilitate the reduction of cross-border barriers and the implementation of transport and trade agreements.

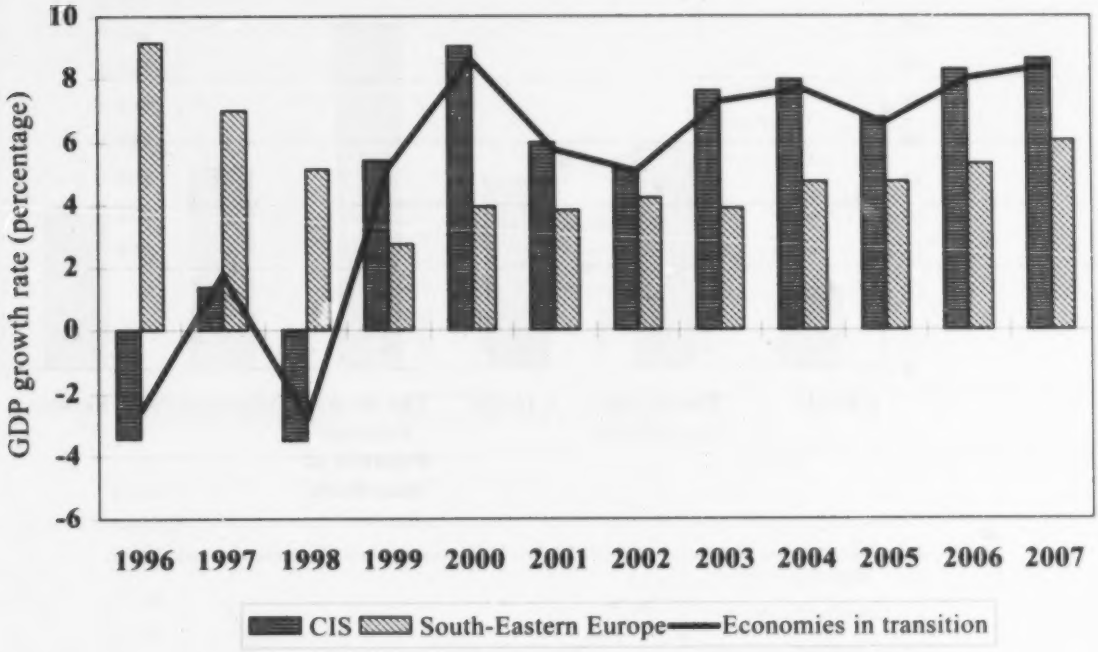
59. The issues of migration and protection of migrant workers need to be addressed and the fight against human trafficking should be intensified, in particular in cooperation with the United Nations Office on Drugs and Crime. The International Labour Organization (ILO) should continue to provide advice on improving labour migration policies and the protection of the rights of migrant workers and work towards eventual ratification of all relevant conventions by more countries. The further development of banking systems, as well as non-banking transfer services in the region, is needed in order to reduce transaction costs for remittances and to divert flows of funds to official channels. It is also important to encourage policies aimed at channelling those funds into productive investment.

60. Given the differences with regard to the pattern and pace of integration of the economies in transition into international markets, the policy mix needed to promote and support economic diversification will vary by country. However, all of these policies need to be coherent and to engage all of society in order that the long-term goal of sustained high growth rates and higher living standards may be achieved.

Annex

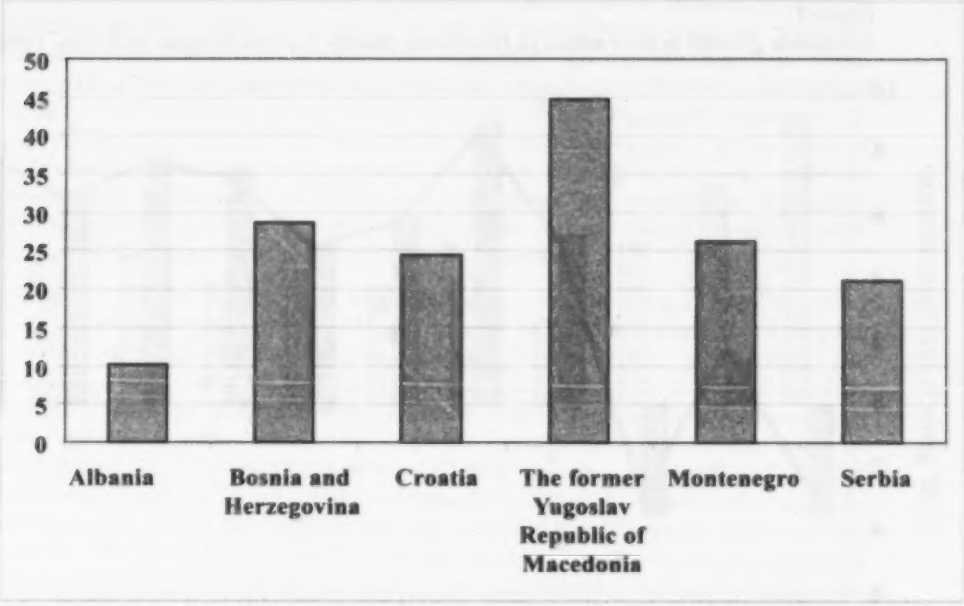
Figures and tables

Figure I
Economic growth in economies in transition, South-Eastern Europe and CIS, 1996-2007



Source: Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA), based on Economic Commission for Europe (ECE) database.

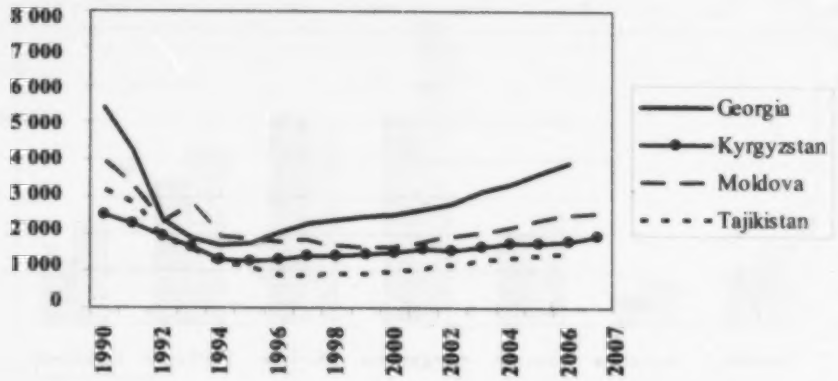
Figure II
Exports of goods as a share of GDP in South-Eastern Europe, 2007
(Percentage)



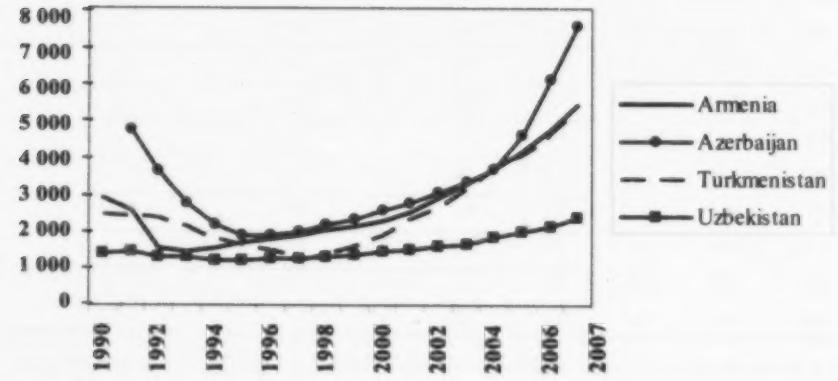
Source: International Monetary Fund (IMF), World Economic Outlook database (April 2008).

Figure III
GDP per capita (purchasing power parities of 2005) in selected CIS countries, 1990-2007

A. Georgia, Kyrgyzstan, Moldova and Tajikistan

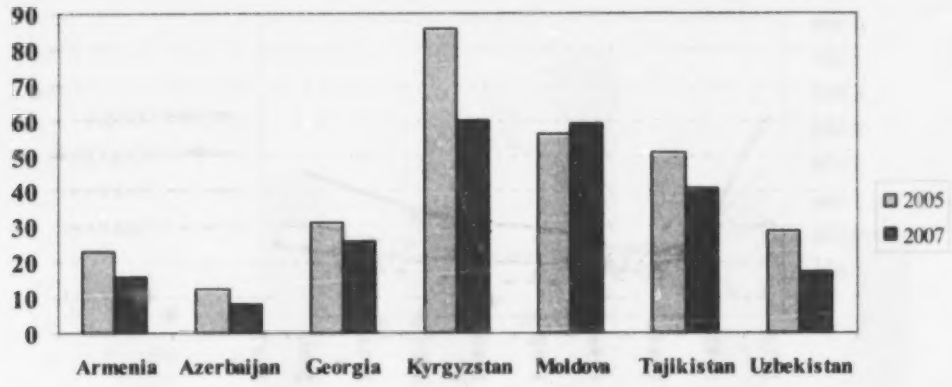


B. Armenia, Azerbaijan, Turkmenistan, and Uzbekistan



Sources: ECE; and IMF, World Economic Outlook database (April 2008).

Figure IV
Ratio of external debt to gross domestic product in selected countries of CIS, 2005 and 2007
(Percentage)



Source: IMF, World Economic Outlook database (April 2008).

Table 1
Macroeconomic indicators for economies in transition, 2005, 2006 and 2007

	Growth of real GDP (annual percentage change)			*Consumer price inflation (annual percentage change)*			*Unemployment rate (percentage)*		
	2005	*2006*	*2007*	*2005*	*2006*	*2007*	*2005*	*2006*	*2007*
Economies in transition	6.6	8.0	8.4	11.2	8.9	9.0			
South-Eastern Europe	4.7	5.3	6.0	2.9	3.7	3.0			
Albania	5.8	5.5	6.0	2.4	2.4	2.9	14.1	13.8	13.0
Bosnia and Herzegovina	3.9	6.7	6.0	2.5	6.5	1.5	46.6	47.7	..
Croatia	4.3	4.8	5.6	3.3	3.2	2.9	12.7	11.1	..
The former Yugoslav Republic of Macedonia	4.1	4.0	5.0	-0.7	3.3	2.8	37.3	36.0	..
Serbia	6.2	5.7	7.5	16.1	11.7	6.4	20.8	20.9	..
Montenegro	4.2	8.6	6.7	2.6	3.0	4.3	30.3	..	..
Commonwealth of Independent States	6.8	8.3	8.6	12.1	9.5	9.6			
Armenia	13.9	13.3	13.7	0.6	2.9	4.4	7.6	7.2	6.6
Azerbaijan	26.4	34.5	25.1	9.6	8.2	16.6	1.4	1.3	1.2
Belarus	9.4	9.9	8.2	10.4	7.0	8.3	1.5	1.2	1.0
Georgia	9.6	9.4	12.4	8.2	9.2	9.2	13.8	13.6	..
Kazakhstan	9.7	10.7	8.7	7.6	8.6	10.8	8.1	7.8	7.3
Kyrgyzstan	-0.2	3.1	8.2	4.4	5.6	10.2	8.1	8.3	..
Moldova	7.5	4.8	3.0	12.0	12.8	12.4	7.3	7.4	5.1
Russian Federation	6.4	7.4	8.1	12.7	9.7	9.0	7.2	7.2	..
Tajikistan	6.7	6.7	7.8	7.2	10.0	13.4	2.1	2.3	2.5
Turkmenistan	9.0	9.0	8.0	12.0	9.0	6.4	..	..	..
Ukraine	2.7	7.3	7.6	13.5	9.1	12.8	7.2	6.8	6.7
Uzbekistan	7.0	7.3	9.8	8.0	10.5	12.3	0.3	..	..

Sources: UN/DESA, based on data of ECE; Interstate Statistical Committee of CIS (http://www.cisstat.com).
Note: Two dots (..) indicate that data are not available.

Table 2
Foreign trade in economies in transition by direction, 2005, 2006 and 2007

	Exports			*Imports*		
	Value (billions of dollars)	*Growth rate[a] (percentage)*		*Value (billions of dollars)*	*Growth rate[a] (percentage)*	
Country or country group	*2005*	*2006*	*2007*	*2005*	*2006*	*2007*
Economies in transition, to and from:						
World	346.0	21.4	21.3	225.2	33.7	53.0
Developed market economies	210.9	25.0	13.5	112.9	36.0	58.3
EU-27	183.3	25.9	7.9	93.6	36.6	63.4
EU-15	133.0	27.9	9.6	72.5	34.1	65.9
New EU member States	50.4	20.8	3.2	21.0	45.3	55.4
Economies in transition	63.5	13.1	42.9	68.0	22.0	35.0
Commonwealth of Independent States	59.6	12.1	42.3	65.3	22.3	34.6
Russian Federation	18.3	15.7	29.1	35.9	33.8	24.3
South-Eastern Europe	3.9	28.8	50.3	2.8	16.5	44.3
Developing countries	65.2	18.4	27.3	42.3	47.1	65.0
South-Eastern Europe, to and from:						
World	15.4	7.5	22.1	35.3	2.1	24.0
Developed market economies	10.8	5.0	18.2	25.4	-5.4	19.5
EU-27	10.1	4.7	19.4	23.7	-5.6	20.3
EU-15	7.8	2.3	16.3	17.0	-6.4	22.7
New EU member States	2.3	12.5	29.0	6.7	-3.8	14.5
Economies in transition	2.7	16.2	29.7	5.2	22.9	27.8
Commonwealth of Independent States	0.2	26.5	49.2	2.6	33.1	28.5
Russian Federation	0.1	13.1	71.0	2.3	36.8	29.9
South-Eastern Europe	2.5	15.3	27.9	2.5	12.2	27.0
Developing countries	1.3	-4.8	4.9	4.3	18.1	40.6
CIS countries, to and from:						
World	330.7	22.1	21.2	189.9	39.6	56.9
Developed market economies	200.1	26.1	13.3	87.5	48.0	65.5
EU-27	173.2	27.2	7.3	69.9	51.0	72.5
EU-15	125.2	29.4	9.2	55.6	46.5	74.3
New EU member States	48.1	21.2	2.0	14.3	68.4	66.4
Economies in transition	60.9	13.0	43.5	62.8	22.0	35.6
Commonwealth of Independent States	59.4	12.0	42.3	62.6	21.8	34.9
Russian Federation	18.1	15.7	28.7	33.6	33.6	24.0
South-Eastern Europe	1.4	52.1	79.6	0.2	67.8	181.9
Developing countries	63.9	18.9	27.6	37.9	50.4	67.2

Country or country group	Exports: Value (billions of dollars) 2005	Exports: Growth rate[a] (percentage) 2006	Exports: Growth rate[a] (percentage) 2007	Imports: Value (billions of dollars) 2005	Imports: Growth rate[a] (percentage) 2006	Imports: Growth rate[a] (percentage) 2007
Russian Federation, to and from:						
World	239.3	22.0	18.0	97.4	36.0	79.8
Developed market economies	161.3	26.5	9.1	56.8	40.0	85.7
EU-27	138.7	27.8	1.8	43.9	39.7	101.0
EU-15	100.7	29.3	5.1	36.4	39.3	101.3
New EU member States	38.0	23.7	-7.3	7.5	41.6	99.6
Economies in transition	31.6	8.8	59.2	18.0	-1.6	71.9
Commonwealth of Independent States	30.6	6.4	57.4	17.8	-2.2	69.3
Russian Federation	0.0	0.0	0.0	0.0	0.0	0.0
South-Eastern Europe	1.0	84.4	89.4	0.1	91.6	273.2
Developing countries	42.7	16.6	26.8	21.8	57.4	71.7
CIS excluding Russia, to and from:						
World	91.4	22.3	29.7	92.5	43.4	34.1
Developed market economies	38.8	24.4	31.3	30.7	62.7	33.4
EU-27	34.5	24.5	30.0	26.0	70.0	33.0
EU-15	24.5	29.8	26.1	19.1	60.1	29.7
New EU member States	10.1	11.8	40.7	6.8	97.8	40.4
Economies in transition	29.3	17.5	27.8	44.9	31.4	24.7
Commonwealth of Independent States	28.9	18.1	27.8	44.8	31.4	24.7
Russian Federation	18.1	15.7	28.7	33.6	33.6	24.0
South-Eastern Europe	0.4	-22.7	26.1	0.1	37.9	22.9
Developing countries	21.2	23.5	29.3	16.1	40.9	60.6

Source: IMF, International Financial Statistics.

[a] Calculated based on value expressed in dollars.

Table 3
Technological classification of exports, by region and country group, 1996, 2000, 2003 and 2006

		Percentage share of total exports			
		1996	*2000*	*2003*	*2006*
New EU members					
Primary products		10.5	7.4	6.2	7.0
Resource-based manufactures	Agro-based	13.1	9.7	9.4	8.4
	Other	8.3	7.3	6.3	7.8
Low-technology manufactures	Textile, garment and footwear	13.4	10.8	9.5	5.9
	Other products	16.1	14.5	14.7	13.9
Medium-technology manufactures	Automotive	5.9	9.9	10.9	12.1
	Process	9.1	7.0	6.5	6.8
	Engineering	13.5	17.0	19.1	18.8
High-technology manufactures	Electronic and electrical	6.2	12.8	12.9	13.4
	Other	2.5	2.0	2.3	2.5
Others		1.3	1.6	2.3	3.3
Economies in transition					
Primary products		38.2	42.6	43.3	48.4
Resource-based manufactures	Agro-based	7.1	5.6	6.2	5.3
	Other	12.8	14.3	14.3	17.7
Low-technology manufactures	Textile, garment and footwear	2.6	2.6	2.4	1.5
	Other products	6.4	6.2	5.9	5.0
Medium-technology manufactures	Automotive	1.3	1.2	1.1	1.1
	Process	10.8	9.0	9.2	8.7
	Engineering	5.1	5.1	4.4	3.5
High-technology manufactures	Electronic and electrical	1.6	1.5	1.7	1.1
	Other	1.3	2.2	2.5	1.0
Others		13.0	9.6	9.0	6.8
South-Eastern Europe					
Primary products		13.7	12.3	10.9	12.9
Resource-based manufactures	Agro-based	16.0	13.9	13.4	14.7
	Other	9.2	10.8	9.7	12.6
Low-technology manufactures	Textile, garment and footwear	20.7	19.9	20.2	12.6
	Other products	8.6	10.6	10.8	14.4
Medium-technology manufactures	Automotive	1.4	1.3	1.6	1.2
	Process	11.0	8.4	6.6	9.3
	Engineering	12.6	15.2	16.4	13.7
High-technology manufactures	Electronic and electrical	2.8	2.8	5.3	3.8
	Other	3.1	4.1	3.6	2.6
Others		1.0	0.7	1.5	2.2

		Percentage share of total exports			
		1996	2000	2003	2006
CIS					
Primary products		39.9	44.3	44.9	50.4
Resource-based manufactures	Agro-based	6.5	5.1	5.8	4.7
	Other	13.0	14.5	14.6	18.0
Low-technology manufactures	Textile, garment and footwear	1.3	1.7	1.5	0.9
	Other products	6.2	5.9	5.6	4.5
Medium-technology manufactures	Automotive	1.3	1.2	1.1	1.0
	Process	10.8	9.0	9.3	8.6
	Engineering	4.6	4.6	3.8	2.9
High-technology manufactures	Electronic and electrical	1.5	1.5	1.5	1.0
	Other	1.1	2.1	2.5	0.9
Others		13.8	10.1	9.4	7.1

Source: UN/DESA, based on United Nations Commodity Trade Statistics Database (COMTRADE).

Table 4
Net foreign direct investment in economies in transition, 2000-2007

	Cumulative FDI inflows (millions of dollars)	*Cumulative FDI per capita (dollars)*	*FDI inflows as share of GDP (percentage)*		
	2000-2007	*2000-2007*	*2005*	*2006*	*2007*
New EU members[a]	246 724.7	2 424.4	5.0	4.8	4.4
Bulgaria	27 116.0	3 549.8	14.7	23.1	20.6
Czech Republic	48 677.9	4 778.7	9.3	3.3	4.5
Estonia	6 056.8	4 535.8	16.2	3.4	4.5
Hungary	22 377.8	2 231.2	4.9	2.8	1.0
Latvia	5 759.4	2 529.3	3.6	7.4	7.8
Lithuania	5 754.2	1 697.4	2.7	5.2	3.5
Poland	68 694.0	1 803.8	2.3	2.9	3.8
Romania	39 485.9	1 841.9	6.7	9.3	5.8
Slovakia	21 246.4	3 941.8	4.8	6.8	3.5
Slovenia	1 556.3	777.6	-0.2	-0.7	-0.1
South-Eastern Europe	37 392.8	1 546.7	4.9	9.2	8.2
Albania	2 201.2	690.0	3.1	3.5	6.0
Bosnia and Herzegovina	4 925.0	1 251.6	5.5	5.7	13.6
Croatia	15 115.9	3 318.2	4.0	7.5	9.1
The former Yugoslav Republic of Macedonia	2 045.7	1 003.5	1.6	6.7	4.3
Montenegro	1 950.9	3 262.5	21.3	23.6	24.2
Serbia	11 154.1	1 131.4	5.9	13.8	5.3
CIS	90 326.6	325.1	1.2	1.8	1.4
Armenia	1 998.0	665.5	4.7	7.0	8.3
Azerbaijan	-23.4	-2.8	3.5	-6.2	-16.3
Belarus	3 422.5	353.2	1.0	0.9	4.0
Georgia	4 413.7	1 004.2	8.5	13.9	15.4
Kazakhstan	29 779.0	1 931.0	3.7	8.2	6.8
Kyrgyzstan	606.5	114.1	1.7	6.4	5.6
Moldova	1 423.2	375.2	6.6	7.2	10.6
Russian [illegible]ation	15 753.1	110.5	0.0	0.9	0.5
Tajikistan	1 148.4	170.5	2.4	12.0	10.8
Turkmenistan	3 109.8	626.3	2.4	3.3	3.0
Ukraine	27 671.0	598.9	8.7	5.4	6.6
Uzbekistan	1 024.8	37.4	0.6	1.1	1.2

Sources: United Nations Conference on Trade and Development, *World Investment Report 2008* (United Nations publication, Sales No. E.08.II.D.23); International Monetary Fund, estimates of central bank and European Bank for Reconstruction and Development; International Monetary Fund, World Economic Outlook database; *World Population Prospects: The 2006 Revision*, vols. I and II (United Nations publications, Sales Nos. E.07.XIII.2 and E.07.XIII.3).

[a] Excluding Cyprus and Malta, which were not economies in transition.

Table 5
Remittances as a share of GDP in South-Eastern Europe and CIS, 2000-2007
(Percentage)

	2000	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
South-Eastern Europe								
Albania	16.4	17.2	16.5	15.6	15.9	15.7	14.9	13.9
Bosnia and Herzegovina	27.9	25.4	22.9	20.9	19.3	17.9	15.8	13.1
Croatia	3.5	3.8	3.8	3.7	3.4	3.1	2.9	3.5
The former Yugoslav Republic of Macedonia	2.3	2.1	2.8	3.7	4.0	3.9	4.2	3.6
Serbia	12.6	14.4	13.2	13.1	16.8	17.7	14.8	11.8
CIS								
Armenia	4.6	4.4	5.5	24.4	22.8	19.2	18.4	16.0
Azerbaijan	1.1	1.8	2.9	2.4	2.6	5.2	3.9	3.2
Belarus	1.3	1.2	1.0	1.2	1.1	1.2	0.9	0.7
Georgia	9.0	5.6	6.8	5.9	5.9	5.4	6.2	5.2
Kazakhstan	0.7	0.8	0.8	0.5	0.4	0.3	0.2	0.2
Kyrgyzstan	0.7	0.7	2.3	4.1	8.5	13.1	26.0	19.7
Moldova	13.9	16.4	19.5	24.6	27.1	30.8	35.2	28.4
Russian Federation	0.5	0.5	0.4	0.3	0.4	0.4	0.3	0.3
Tajikistan	0.0	0.0	6.5	9.4	12.2	20.2	36.3	33.7
Ukraine	0.1	0.4	0.5	0.7	0.6	0.7	0.8	0.7

Source: IMF, Balance of Payments and World Economic Outlook (April 2008) databases.

Table 6
International migration to and from the Russian Federation, 2004-2007

	Migration inflows				*Migration outflows*			
	2004	*2005*	*2006*	*2007*	*2004*	*2005*	*2006*	*2007*
Total	**119 157**	**177 230**	**186 380**	**286 956**	**79 795**	**69 798**	**54 061**	**47 013**
of which to and from:								
CIS	110 374	168 598	177 657	273 872	37 017	36 109	35 262	31 329
Azerbaijan	2 584	4 600	8 900	20 968	1 336	1 274	1 366	1 355
Armenia	3 057	7 581	12 949	30 751	654	620	686	728
Belarus	5 650	6 797	5 619	6 030	5 671	6 034	6 318	5 302
Georgia	4 886	5 497	6 806	10 595	740	691	593	603
Kazakhstan	40 150	51 945	38 606	40 258	12 504	12 437	11 948	10 211
Kyrgyzstan	9 511	15 592	15 669	24 731	656	473	605	668
Moldova	4 816	6 569	8 649	14 090	907	786	636	629
Tajikistan	3 339	4 717	6 523	17 309	549	434	424	464
Turkmenistan	3 734	4 104	4 089	4 846	168	125	112	111
Uzbekistan	14 948	30 436	37 126	52 802	717	595	648	722
Ukraine	17 699	30 760	32 721	51 492	13 115	12 640	11 926	10 536
Non-CIS								
Germany	3 117	3 025	2 900	3 164	42 778	33 689	18 799	15 684
Israel	1 486	1 004	1 053	1 094				
China	212	432	499	1 687	1 733	1 745	1 408	1 202
United States of America	518	396	411	578	154	456	196	56
Turkey	77	86	172	315	2 919	4 040	3 109	2 108

Source: Goskomstat (www.gks.ru) (accessed 1 July 2008).

Table 7
Selected indicators of progress in the implementation of market-oriented reform in the economies in transition,[a] 2007

	Large-scale privatization	*Small-scale privatization*	*Trade and foreign-exchange-system*	*Competition policy*	*Banking reform and interest-rate liberalization*	*Securities markets and non-bank financial institutions*	*Infrastructure reform*
Less than 3	Azerbaijan	Belarus	Belarus	Albania	Albania	Albania	Albania
	Belarus	Turkmenistan	Turkmenistan	Armenia	Armenia	Armenia	Armenia
	Serbia		Uzbekistan	Azerbaijan	Azerbaijan	Azerbaijan	Azerbaijan
	Tajikistan			Belarus	Belarus	Belarus	Belarus
	Turkmenistan			Bosnia and Herzegovina	Bosnia and Herzegovina	Bosnia and Herzegovina	Bosnia and Herzegovina
	Uzbekistan			Croatia	Georgia	Georgia	Georgia
				Georgia	Kyrgyzstan	Kazakhstan	Kazakhstan
				Kazakhstan	Montenegro	Kyrgyzstan	Kyrgyzstan
				Kyrgyzstan	Russian Federation	Moldova	Moldova
				Moldova	Serbia	Montenegro	Montenegro
				Montenegro	Tajikistan	Serbia	Russian Federation
				Russian Federation	The former Yugoslav Republic of Macedonia	Tajikistan	Serbia
				Serbia	Turkmenistan	The former Yugoslav Republic of Macedonia	Tajikistan
				Tajikistan	Uzbekistan	Turkmenistan	The former Yugoslav Republic of Macedonia
				The former Yugoslav Republic of Macedonia		Ukraine	Turkmenistan
				Turkmenistan		Uzbekistan	Ukraine
				Ukraine			Uzbekistan
				Uzbekistan			
Between 3 and 4	Albania	Azerbaijan	Bosnia and Herzegovina		Kazakhstan	Croatia	Croatia
	Armenia	Bosnia and Herzegovina	Kazakhstan		Moldova[b]	Russian Federation	

	Large-scale privatization	*Small-scale privatization*	*Trade and foreign-exchange-system*	*Competition policy*	*Banking reform and interest-rate liberalization*	*Securities markets and non-bank financial institutions*	*Infrastructure reform*
	Bosnia and Herzegovina[b]	Moldova	Russian Federation		Ukraine[b]		
	Croatia	Montenegro	Serbia				
	Kazakhstan	Serbia	Tajikistan				
	Kyrgyzstan	Uzbekistan	Ukraine				
	Moldova						
	Montenegro[b]						
	Russian Federation						
	The former Yugoslav Republic of Macedonia						
	Ukraine						
4 or over	Georgia[b]	Albania	Albania		Croatia		
		Armenia	Armenia				
		Croatia	Azerbaijan				
		Georgia	Croatia				
		Kazakhstan	Georgia				
		Kyrgyzstan	Kyrgyzstan				
		Russian Federation	Moldova				
		Tajikistan	Montenegro[b]				
		The former Yugoslav Republic of Macedonia	The former Yugoslav Republic of Macedonia				
		Ukraine					

Source: European Bank for Reconstruction and Development, *Transition Report, 2007 People in Transition* (London, November 2007), p. 6.

[a] European Bank for Reconstruction and Development classification is based on a 1 to 4+ scale where 1 signifies an economy with little or no reforms, while 4+ signifies a developed-market economy. For a detailed breakdown of each area of reform, see the methodological notes on page 210 of the *Transition Report*.

[b] Upgraded to the next group.

Table 8

Relative importance of the private sector in total production in the economies in transition,[a] mid-2007

Share of GDP	*Countries*
75 per cent or over	Albania, Armenia, Azerbaijan,[b] Georgia,[b] Kyrgyzstan
50-74.9 per cent	Bosnia and Herzegovina, Croatia, Kazakhstan, Moldova, Montenegro, Russian Federation, Serbia, Tajikistan, the former Yugoslav Republic of Macedonia, Ukraine
Less than 50 per cent	Belarus, Turkmenistan, Uzbekistan

Source: European Bank for Reconstruction and Development, *Transition Report, 2007 People in Transition* (London, November 2007), p. 6.

[a] European Bank for Reconstruction and Development classification is based on a 1 to 4+ scale, where 1 signifies an economy with little or no reforms, while 4+ signifies a developed-market economy. For a detailed breakdown of each area of reform, see the methodological notes on page 210 of the *Transition Report*.

[b] Moved to the next group.

Table 9
Status of economies in transition vis-à-vis the World Trade Organization, May 2008

	World Trade Organization: date joined
South-eastern Europe	
Albania	September 2000
Bosnia and Herzegovina	Negotiating
Croatia	November 2000
Montenegro	Negotiating
Serbia	Negotiating
The former Yugoslav Republic of Macedonia	April 2003
CIS	
Armenia	February 2003
Azerbaijan	Negotiating
Belarus	Negotiating
Georgia	June 2000
Kazakhstan	Negotiating
Kyrgyzstan	December 1998
Moldova	July 2001
Russian Federation	Negotiating
Tajikistan	Negotiating
Turkmenistan	Not negotiating
Ukraine	May 2008
Uzbekistan	Negotiating

Source: World Trade Organization (at http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm).

Table 10
Users of the Internet in South-Eastern Europe and CIS, 2007

	Subscribers (per 100 population)	*Users (per 100 population)*
South-eastern Europe		
Albania	0.65	14.98
Bosnia and Herzegovina	6.96	26.81
Croatia	30.38	43.8
Montenegro	14.78	46.82
Serbia	10.26	15.22
The former Yugoslav Republic of Macedonia	16.32	33.6
CIS		
Armenia	2.97	5.75
Azerbaijan	2.3	12.23
Belarus	4.2	61.93
Georgia	6.41	8.19
Kazakhstan	2.43	12.32
Kyrgyzstan	0.42	14.11
Moldova	2.9	18.45
Russian Federation	..	21.05
Tajikistan	0.01	0.3
Turkmenistan	..	1.41
Ukraine	13.85	21.64
Uzbekistan	0.15	4.38

Source: International Telecommunication Union.